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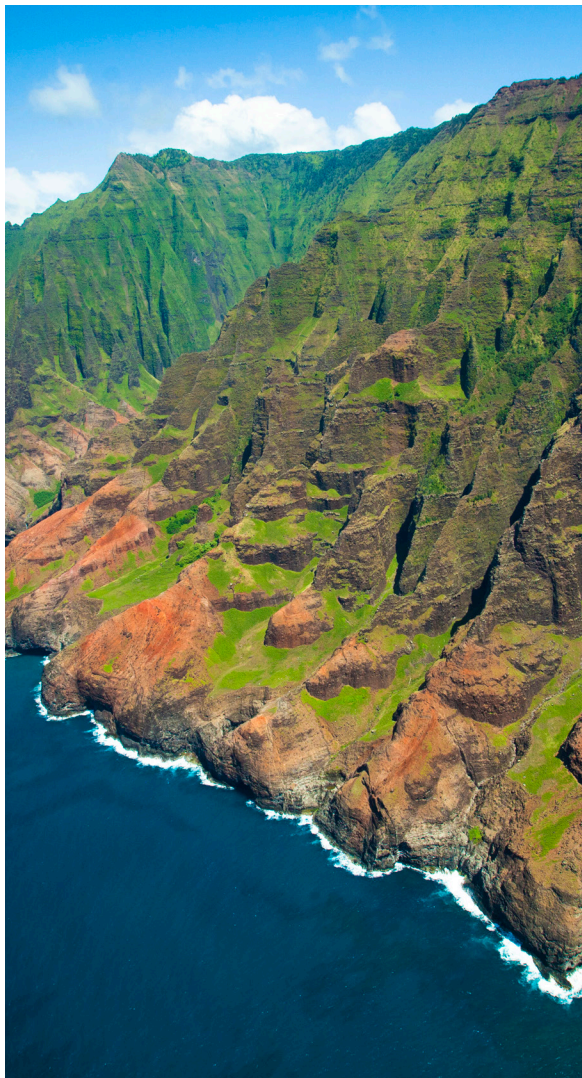
THE ECONOMIC RESEARCH ORGANIZATION  
AT THE UNIVERSITY OF HAWAII

UHERO STATE FORECAST UPDATE

PUBLIC EDITION

# HAWAII IN EARLY STAGES OF RECOVERY, THEN A SETBACK

SEPTEMBER 25, 2020





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THE ECONOMIC RESEARCH ORGANIZATION  
AT THE UNIVERSITY OF HAWAII

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## **UHERO STATE FORECAST UPDATE**

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# Executive Summary

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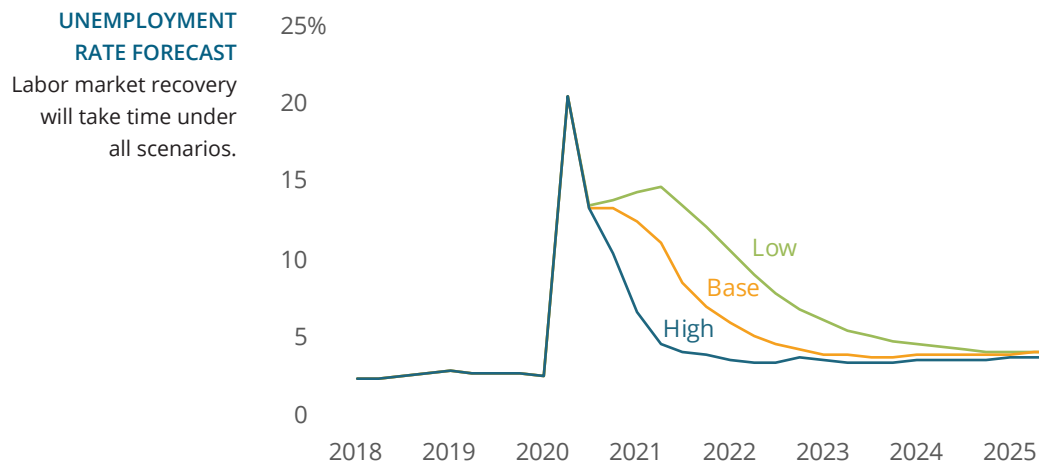
Hawaii's summer COVID-19 resurgence put the brakes on what had been the beginnings of a tentative economic recovery. A second delay of the tourism restart was another setback for our leading industry. And the renewed need for strict social distancing on Oahu has hit the non-tourism economy, too. A likely dearth of additional federal fiscal support will further hamstring the economy. Our baseline forecast now sees meaningful economic recovery delayed until the middle of next year. After that, we continue to anticipate an attenuated recovery period.

Given the considerable epidemiological and economic uncertainty, following recent practice we present baseline, optimistic, and pessimistic scenarios.

- The tourism industry has been effectively shuttered since the end of March. Employment in leisure and hospitality fell 60% early on and remains at less than half its pre-pandemic level. The pandemic has had a significant negative impact on industries associated with tourism, including transportation, retail, and food service.
- Industries outside tourism were not immune, with most experiencing high single-digit percentage declines in employment. And our new weekly *UHERO Economic Pulse* index indicates that Hawaii's first steps toward recovery began to falter in mid-July, just after the expiration of the Paycheck Protection Program and the onset of the second wave of COVID-19 infections.
- Only the construction industry avoided job losses. By midsummer, home resales and private permits had bounced back from earlier declines that had resulted from government restrictions and increased processing times. Government contracts awarded have surged five-fold this year, owing to several large military projects.
- Home prices will be held down by modestly higher supply and weaker demand. Poor economic conditions, high unemployment, and continuing outmigration will offset the demand generated by low interest rates. Nonresidential construction will be hamstrung by low levels of capacity utilization in retail, hospitality, and office space.
- The tourism recovery will be hampered by the public's reluctance to travel and by macroeconomic weakness in all major visitor markets. In our baseline forecast, arrivals will begin to rise after the scheduled launch of the pre-travel testing program on October 15, and as the virus becomes well controlled here. More significant tourism gains will be seen after a vaccine becomes widely available in the second half of 2021.
- Under an optimistic scenario, gains in the availability of rapid virus tests would enable a more rapid recovery in visitor numbers. In our more pessimistic case, a third wave of illness emerges in the fall and winter, and an effective vaccine does not become widely available until late next year, delaying a significant tourism restart. The long-term path of recovery is also slower than in the baseline case.
- Recovery of the broader local economy will depend on conditions in the tourism industry, but also on progress in controlling COVID-19 in Hawaii, as well as state and federal macroeconomic policies. Under the baseline scenario, unemployment will see a much slower pace of improvement than in recent months. Reductions in federal support will also weigh on the economy. Our more optimistic scenario assumes additional federal support for households. Together with the more rapid tourism rebound, this helps support a more robust recovery.
- In our pessimistic scenario, the much slower restart of tourism and continuing need for social distancing would weigh more heavily on demand. Facing larger and more prolonged budget deficits, the State Government would resort to partial furloughs. The aggregate result of all

of this would be persistently weak employment and income, with unemployment remaining above 8% until 2022.

- Hawaii government's failure to take advantage of a nearly-two-month period without COVID-19 cases to prepare for an eventual resurgence is regrettable, to say the least. To avoid a deeper macroeconomic failure, we must maintain the recent progress in bringing this second virus wave under control, and the State and local governments—with the full support of business and the Hawaii community—must execute flexible plans for the safe and expeditious resumption of trans-Pacific travel and the reopening of the broader economy.



# Forecast Summary

## ECONOMIC INDICATORS, BASELINE FORECAST PUBLIC SUMMARY

	2018	2019	2020	2021	2022	2023
<b>STATE OF HAWAII</b>						
Nonfarm Payrolls (Thou)	658.2	656.1	565.3	575.2	614.7	626.9
% Change	0.5	-0.3	-13.8	1.7	6.9	2.0
Unemployment Rate (%)	2.5	2.7	12.4	9.7	5.0	3.8
Real Personal Income (Mil 2019\$)	80,001.5	81,342.5	77,377.4	75,317.2	78,260.0	80,107.2
% Change	2.1	1.7	-4.9	-2.7	3.9	2.4
Real GDP (Mil 2019\$)	95,323.5	97,281.7	85,820.7	86,851.3	91,599.4	93,259.9
% Change	3.0	2.1	-11.8	1.2	5.5	1.8
Total Visitor Arrivals by Air (Thou)	9,761.4	10,243.2	2,692.8	4,671.8	7,884.4	8,912.6
% Change	5.2	4.9	-73.7	73.5	68.8	13.0
Visitor Days (Thou)	87,724.6	89,692.4	27,726.1	42,840.1	68,630.9	77,848.5
% Change	4.9	2.2	-69.1	54.5	60.2	13.4
Real Visitor Expenditures (Mil 2019\$)	17,748.4	17,694.9	4,836.1	7,145.4	12,138.5	14,316.5
% Change	3.2	-0.3	-72.7	47.8	69.9	17.9
<b>HONOLULU COUNTY</b>						
Nonfarm Payrolls (Thou)	473.2	472.0	414.1	419.7	446.1	453.5
% Change	0.3	-0.3	-12.3	1.3	6.3	1.7
Unemployment Rate (%)	2.4	2.6	10.3	7.7	3.7	2.9
Inflation Rate, Honolulu MSA (%)	1.8	1.6	1.4	0.8	1.0	1.9
Real Personal Income (Mil 2019\$)	59,371.2	60,313.1	57,532.8	56,290.1	58,446.2	59,687.7
% Change	1.9	1.6	-4.6	-2.2	3.8	2.1
Total Visitor Arrivals by Air (Thou)	5,862.4	6,154.2	1,565.5	2,783.9	4,679.5	5,293.0
% Change	3.2	5.0	-74.6	77.8	68.1	13.1
<b>HAWAII COUNTY</b>						
Nonfarm Payrolls (Thou)	71.2	70.7	61.8	63.2	66.2	67.3
% Change	0.6	-0.7	-12.6	2.3	4.7	1.7
Unemployment Rate (%)	3.0	3.5	12.4	9.9	6.7	5.8
Real Personal Income (Mil 2019\$)	8,670.2	8,907.5	8,536.7	8,240.9	8,423.9	8,598.9
% Change	2.7	2.7	-4.2	-3.5	2.2	2.1
Total Visitor Arrivals by Air (Thou)	1,706.2	1,763.9	465.8	811.2	1,388.5	1,580.6
% Change	-3.4	3.4	-73.6	74.2	71.2	13.8
<b>MAUI COUNTY</b>						
Nonfarm Payrolls (Thou)	80.3	80.2	62.8	64.7	72.4	75.1
% Change	1.7	-0.1	-21.7	3.0	11.9	3.7
Unemployment Rate (%)	2.4	2.6	20.0	17.4	8.2	5.4
Real Personal Income (Mil 2019\$)	8,337.5	8,477.3	7,820.0	7,452.7	7,915.8	8,242.5
% Change	2.2	1.7	-7.8	-4.7	6.2	4.1
Total Visitor Arrivals by Air (Thou)	2,963.6	3,119.2	814.4	1,464.8	2,517.5	2,851.3
% Change	5.9	5.3	-73.9	79.9	71.9	13.3
<b>KAUAI COUNTY</b>						
Nonfarm Payrolls (Thou)	32.7	33.2	26.8	27.5	30.1	31.0
% Change	-0.3	1.6	-19.1	2.6	9.2	3.1
Unemployment Rate (%)	2.5	2.7	19.1	16.1	8.8	6.6
Real Personal Income (Mil 2019\$)	3,622.5	3,743.2	3,487.9	3,333.4	3,474.1	3,578.1
% Change	3.6	3.3	-6.8	-4.4	4.2	3.0
Total Visitor Arrivals by Air (Thou)	1,389.3	1,372.7	363.3	633.8	1,086.7	1,230.6
% Change	8.1	-1.2	-73.5	74.5	71.4	13.2

Note: Source is UHERO. Figures for county income for 2019 are UHERO estimates. Figures for 2020-2023 are forecasts.

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